

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Nava Analyst: Rachel Coco Bill Number: AB 29
Related Bills: See Legislative History Telephone: 845-4328 Introduced Date: December 6, 2004
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Teacher Retention Credit

SUMMARY

This bill would repeal the current suspension of the Teacher Retention Credit.

PURPOSE OF THE BILL

According to the author's office, the purpose of the bill is to provide tax relief for teachers who frequently provide educational tools, books, and other materials for students using their own funds.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would become effective immediately upon enactment. The bill specifies an operative date for taxable years beginning on or after January 1, 2004.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal and state laws provide various tax credits designed to provide tax relief for taxpayers that incur certain expenses (e.g., child adoption) or to influence behavior, including business practices and decisions (e.g., research credits or economic development area hiring credits). These credits generally are designed to provide incentives for taxpayers to perform various actions or activities that they might not otherwise undertake.

Current state law allows a tax credit for credentialed teachers based upon the taxpayer's years of service as a credentialed teacher. The credit amount varies as follows:

| <u>Years of Service</u> | <u>Credit</u> |
|------------------------------------|---------------|
| At least 4 but less than 6 years | \$250 |
| At least 6 but less than 11 years | \$500 |
| At least 11 but less than 20 years | \$1,000 |
| 20 or more years | \$1,500 |

Board Position:

| | | |
|-----------------------------|------------------------------|---|
| <input type="checkbox"/> S | <input type="checkbox"/> NA | <input type="checkbox"/> NP |
| <input type="checkbox"/> SA | <input type="checkbox"/> O | <input type="checkbox"/> NAR |
| <input type="checkbox"/> N | <input type="checkbox"/> OUA | <input checked="" type="checkbox"/> PENDING |

Department Director

Gerald Goldberg

Date

12/29/2004

The credit cannot exceed 50% of the amount of tax that would be imposed on a teacher's salary, excluding pensions or other deferred compensation, after application of the standard deduction or itemized deductions.

The Teacher Retention Credit was enacted in 2000 and first operative for the 2000 taxable year. It was subsequently suspended for the 2002 taxable year, but available again for the 2003 taxable year.

Legislation enacted in 2004 (SB 1100, Stats. 2004, Ch. 226) suspended the credit again for the 2004 and 2005 taxable years.

THIS BILL

This bill would repeal the current suspension of the Teacher Retention Credit so that the credit would be allowed for taxable years beginning on or after January 1, 2004.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would require changes to existing tax forms and instructions and information systems that could normally be done during annual updates. However, annual updates have been completed for the 2004 taxable year and tax forms and instructions have been printed and mailed. As a result, with an operative date of January 1, 2004, this bill would have a significant impact to the department's programs and operations due to retroactive system changes that would be required and processing of a significant number of amended returns.

LEGISLATIVE HISTORY

SB 1100 (Senate Committee on Budget and Fiscal Review, Stats. 2004, Ch. 226) suspended the Teacher Retention Credit for the 2004 and 2005 taxable years.

AB 2065 (Oropeza, Stats. 2002, Ch. 488) suspended the Teacher Retention Credit for the 2002 taxable year.

AB 2879 (Jackson, Stats. 2000, Ch. 75) enacted the Teacher Retention Credit.

OTHER STATES' INFORMATION

Illinois, Massachusetts, Michigan, Minnesota, and New York laws do not provide a credit comparable to the Teacher Retention Credit. The laws of these states were reviewed because their tax laws are similar to California's income tax laws.

FISCAL IMPACT

Depending on the effective date of the bill, department costs could range from minor to significant. As described above under Implementation Considerations, the department anticipates retroactive systems changes and the processing of amended returns. As the bill moves through the legislative process and the department formulates an implementation strategy, department costs will be developed at that time.

ECONOMIC IMPACT

Revenue Estimate

Based on the data and assumptions discussed below, this bill would result in the following revenue loss:

| Estimated Revenue Loss of AB 29 As Introduced December 6, 2004 (\$ Millions) | | |
|--|---------|-----------|
| 2004-05 | 2005-06 | 2006-07 |
| -\$180 | -\$155 | no change |

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

This estimate assumes fast track enactment before April 1, 2005, operative for taxable years beginning on or after January 1, 2004.

The Teacher Retention Credit was suspended for taxable year 2002, re-instated for taxable year 2003, and suspended again for taxable years 2004 and 2005. Credit usage for taxable year 2003 was \$153 million through December 4, 2004. This amount was rounded to \$155 million, and multiplied by a 5% annual growth rate for subsequent years, yielding \$163 million for 2004-05 (\$155 million + 7.75 million growth rate equals \$163 million), and \$171 million for 2005-06 (\$163 million + 8 million growth rate equals \$171 million). It was assumed that this bill would be fast-tracked, which would result in accelerated loss of revenue in the first year due to estimate tax payments. As a result, 10% of the 2005-06 estimate was added to the 2004-05 estimate, \$163million plus \$17 million (\$171 million times 10%) equals \$180 million for 2004-05. The 2005-06 estimate is \$155 million (\$171 million minus \$17 million equals \$155 million).

The estimated revenue savings as discussed in the analysis of SB 1100 were \$210 million for 2004-05 and \$180 million for 2005-06. The estimate for AB 29 is lower because it uses actual 2003 usage of the Teacher Retention Credit not available for the analysis of SB 1100.

POLICY CONCERN

Since this bill would provide tax relief for a prior tax year, the bill should include a public purpose statement for retroactively reducing taxes.

LEGISLATIVE STAFF CONTACT

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